

**LEMON GROVE SANITATION DISTRICT
AGENDA ITEM SUMMARY**

Item No. 4
Mtg. Date May 15, 2018
Dept. Public Works

Item Title: **Ordinance No. 29 – Establishing a 2.875% Increase to the Sewer Service Charge for Fiscal Year 2018-2019**

Staff Contact: Mike James, Assistant City Manager / Public Works Director

Recommendation:

Introduce and conduct the first reading, by title only, of Ordinance No. 29 (**Attachment C**) establishing a 2.875% increase to the sewer service charge for Fiscal Year 2018-2019.

Item Summary:

On May 2, 2017, the Sanitation District Board (Board) approved a 5.75 percent rate increase for five consecutive years from Fiscal Year (FY) 2017-18 to FY 2021-22. At the time of approval, the Board expressed an interest in annually evaluating the rate increase moving forward. At its Board meeting on May 1, 2018, the Board directed staff to reduce the rate from 5.75% to 2.875% for FY 2018-19.

The staff report (**Attachment A**) details the primary reasons supporting the percentage reduction for FY 2018-19 as outlined in the memorandum provided by Dexter Wilson Engineering, Inc. (DWE) (**Attachment B**), what financial considerations are still on the horizon for the Board to consider, and concludes with a financial table that outlines what the remaining two years of the five-year rate study period yield should the established rates remain constant at the previously approved 5.75%.

Lastly, staff recommends that the District Board introduce and conduct the first reading, by title only, of Ordinance No. 29 (**Attachment C**) establishing a 2.875% increase to the sewer service charge for FY 2018-19.

Fiscal Impact:

Based on the FY 2017-18 Sanitation District Tax rolls there are 10,866 equivalent dwelling units in the District. A 2.875% increase to the EDU value will equal \$601.80 which will yield a total estimated gross revenue of \$6,539,158.80 in FY 2018-19.

Environmental Review:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Not subject to review | <input type="checkbox"/> Negative Declaration |
| <input type="checkbox"/> Categorical Exemption, Section [] | <input type="checkbox"/> Mitigated Negative Declaration |

Public Information:

- | | | |
|--|---|---|
| <input checked="" type="checkbox"/> None | <input type="checkbox"/> Newsletter article | <input type="checkbox"/> Notice to property owners within 300 ft. |
| <input type="checkbox"/> Notice published in local newspaper | <input type="checkbox"/> Neighborhood meeting | |

Attachments:

- A. Staff Report
- B. Dexter Wilson Engineering Memorandum Dated April 19, 2018
- C. Ordinance No. 29

Attachment A

LEMON GROVE SANITATION DISTRICT STAFF REPORT

Item No. 4

Mtg. Date May 15, 2018

Item Title: **Ordinance No. 29 – Establishing a 2.875% Increase to the Sewer Service Charge for Fiscal Year 2018-2019**

Staff Contact: [Mike James, Assistant City Manager / Public Works Director]

Background:

On May 2, 2017, the Sanitation District Board (Board) approved a 5.75 percent rate increase for five consecutive years from Fiscal Year (FY) 2017-18 to FY 2021-22. The rate case study that was provided at that time was noticed per the requirements mandated by Proposition 218, which now authorizes the Board to implement any rate increase between 0 and 5.75 percent through FY 2021-22.

The Board also expressed an interest in staff conducting an annual rate review and providing the findings to the Board to support the appropriate rate structure the following fiscal year. On May 15, 2018, the Board received a report from staff with the recommendation to reduce the 5.75 percent rate increase to 2.875 percent based on all relevant information available at the time of the presentation. This agenda item is the next step to implement that direction. Additionally, staff provided additional financial information that will have an impact to the District budget during the remaining years of the five-year rate study and that information is discussed below.

Discussion:

[Staff, working with a Dexter Wilson Engineering, Inc. (DWE), reviewed the District's current expenditures in relation to its budget, the anticipated charges from the City of San Diego for the transportation and treatment of sewage from the District, and any future pure water costs that have changed since the initial five-year study. After reviewing of this information, DWE provided a summary of the findings (**Attachment B**) that supported a reduction in the originally approved sewer service charge for FY 2018-19 from 5.75 percent to 2.875 percent without placing any financial risk to the Board through FY 2021-22, which is the final year of the five-year sewer rate study.

During the discussion held on May 1st, the Board expressed an interest in receiving additional information about the Pure Water program and what other financial considerations are on the Board's horizon that should be monitored. That additional information, in addition to an additional description of the other financial considerations that may impact the District are listed below:

City of San Diego Pure Water Program:

The City of San Diego continues to pursue the pure water program in partnership with the Metro JPA members. Most recently, the City of San Diego staff made a presentation to the Metro TAC/JPA meetings that outlined a plan to move forward with the construction of the pure water phase 1 project. Metro JPA continues to make great strides providing input on the design of post-phase 1 design, making recommendations for the benefit of the region, and lastly, tactfully presenting options to the existing models that may result in alternatives to meet the requirements of the permit waiver.

Attachment A

The latest cost estimate provided by the City of San Diego resulted in an increase of \$100 million from \$1.3 billion to \$1.4 billion to the pure water program budget. Those increases are due to:

- More detailed cost estimates based on 30 percent plans rather than conceptual engineering; and
- Project changes caused by more detailed engineering.

DWE and District staff fully anticipate the costs to continue to increase as progress is made towards 100 percent design. As those costs are further refined, District staff is still waiting for the cost estimates from the City of San Diego staff for the bond financing. As a quick summary, the original plan that the District Board prepared for with the establishment of the \$3.7 million pure water reserve fund, was to pay-as-you-go for the construction costs. Now that the City of San Diego acknowledged that it will finance the costs of the pure water program, the costs to the District will not necessarily decrease, because of the impending financing fee, but will be normalized over a preestablished term at a set rate to reduce the fluctuation in payments.

Forecasted FY 2018-19 Sanitation District Budget:

The District is not anticipating any significant operational expenditure increases next fiscal year. The District Board continues to set aside appropriate reserves to anticipate any unforeseen incident that may increase Metro wastewater charges to the District. As a summary, the following are the District reserve targets from FY 2017-18:

- *Connection Fee Reserves:* Total amount of connection fees paid to date or \$14,000;
- *Operational Reserves:* 40% of the annual operational costs or \$2.3 million;
- *Pure Water Reserves:* Set aside to afford the construction costs for phase 1 of the pure water program or \$3.7 million; and
- *Rate Stabilization Reserves:* Approximately, one year's worth of District expenditures for transportation/treatment of sewage or \$3.3 million.

Metro JPA Expenditures and the FY 2016-17 City of San Diego Audit:

Two years ago, the rate study assumed that the FY 2018-19 Metro expenditure would equal \$3.9 million. With current updates and the impending FY 2016-17 San Diego Audit (True Up) the projected costs were reduced to \$3.0 million.

The Metro JPA entities share approximately 33.54 percent of the total Metro costs, the remaining 66.46 percent is supposed by the City of San Diego. Of the 33.54 percent, the District is responsible for approximately 3.8 percent (estimated FY 2018-19 share). For all costs that are applied to the entire Metro JPA, the District's percent is approximately 1.27 percent of the total cost.

Sanitation District and City General Fund Salary Allocation:

During the District Board workshop held on April 24, 2017, the Board received an updated report of the analysis that was recently completed which reviewed the staffing cost distributions to the District. In that report, a certified public accounting firm was tasked to review the District's current allocation and provide alternatives for costing services to the District from the City's general fund services.

The report summarized and recommended that a plan should be put in place to reallocate \$731,285 from the Sanitation District to the General Fund. This additional revenue to the District was not incorporated into the sewer rate analysis for FY 2018-19. Depending on the

Attachment A

methodology that the District Board/City Council wish to pursue, the additional revenue will be accounted for during the next fiscal year rate analysis.]

Conclusion:

Staff recommends that the Sanitation District Board introduce and conduct the first reading, by title only, of Ordinance No. 29 (**Attachment C**) establishing a 2.875% rate increase to the sewer service charge in FY 2018-19.

DEXTER WILSON ENGINEERING, INC.

DEXTER S. WILSON, P.E.
ANDREW M. OVEN, P.E.
STEPHEN M. NIELSEN, P.E.
NATALIE J. FRASCHETTI, P.E.
STEVEN J. HENDERSON, P.E.

MEMORANDUM

151-007

TO: Mike James, City of Lemon Grove

FROM: Dexter S. Wilson P.E., Dexter Wilson Engineering, Inc.
Natalie Frascchetti P.E., Dexter Wilson Engineering, Inc.

DATE: April 19, 2018

SUBJECT: FY18/19 Sewer Service Charges for the Lemon Grove Sanitation District

BACKGROUND

In December 2015, the Lemon Grove Sanitation District (District) retained the services of NBS to conduct a sewer rate study, the final version of which was presented to the District Board at its February 7, 2017 meeting. Subsequently, on May 2, 2017, the Board adopted Ordinance No. 28 to increase the sewer service charges at the rates identified as Alternative #1 in the NBS study. The Ordinance No. 28/Alternative #1 charges and corresponding annual percentage increases are shown in Table 1.

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April 19, 2018
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TABLE 1 ORDINANCE NO. 28 PROPOSED ANNUAL SEWER SERVICE CHARGES					
Item	Fiscal Year				
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Sewer Service Charge	\$ 584.98	\$ 618.61	\$ 654.18	\$ 691.79	\$ 731.57
Increase over Prior Year	5.75%	5.75%	5.75%	5.75%	5.75%

Ordinance No. 28 was adopted on May 2, 2017

RECOMMENDATION

Since adoption of Ordinance No. 28, there have been changes to the baseline assumptions utilized in the expense projections with respect to the City of San Diego's (City) Pure Water Program. As this program represents a significant portion of the District's projected expenses, it is recommended to revise the percent increase of 5.75% (as adopted in Ordinance No. 28) to an increase of 2.875%, resulting in a Fiscal Year 18/19 Sewer Service Charge of \$601.80. The basis of the recommendation is described below.

Item No. 1 – Pure Water Program Funding

It was previously contemplated that agencies would fund the project on a pay-as-you-go basis. The City is now pursuing bond funding of the program.

Item No. 2 – FY19 Expenditure Projection

The NBS analysis assumed FY19 Metro expenses would be approximately \$3.9 million. Actual expenses are not what were anticipated as the current potential FY19 Metro expenses (FY19 Budget plus FY17 Audit) are projected to be approximately \$3.0 million.

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Item No. 3 – Pure Water Program Costs

The total cost of the Pure Water Program has increased by approximately 13% from \$1,226,014,000 to \$1,387,841,280.

Although the decision to bond fund the Pure Water Program and the projection of FY19 Metro expenses decrease the District's short-term liabilities, the overall cost of the Pure Water Program has increased. Bond payments are anticipated to begin in the 2023; however, the City has not yet provided what the anticipated payment about will be. As such, it is recommended that the District proceed with a rate increase at half of the previously approved increase (a 2.875% increase over FY17/18 rather than 5.75%). The revision is summarized in Table 2.

TABLE 2 RECOMMENDED REVISION TO FY18/19 SEWER SERVICE CHARGE		
Item	Adopted for FY18/19 per Ord. No. 28	Proposed FY18/19
Sewer Service Charge (SSC)	\$ 618.61	\$ 601.80
% Increase to FY17/18	5.75%	2.875%

DSW:Nf;ps

ORDINANCE NO. 29

AN ORDINANCE AMENDING ORDINANCE NO. 28 OF THE LEMON GROVE SANITATION DISTRICT DESCRIBING METHODS FOR CALCULATING SEWER USE CHARGES

The Board of Directors of the Lemon Grove Sanitation District does ordain as follows:

SECTION 1. Ordinance No. 28, Article III shall be amended to read as follows:

ARTICLE III

SEWER SERVICE CHARGES

SECTION 30. ESTABLISHMENT OF SEWER SERVICE CHARGE. There is hereby levied and assessed upon each premise within the district that discharges sewage into the sewer lines of the District and upon each person owning, letting or occupying such premises an annual sewer service charge.

The annual sewer service charge is made up of two components. The first component is generally based on the District's annual cost to collect and transport wastewater, and is equally divided among the number of equivalent dwelling units (EDUs) connected to the District's system. The second component is generally the District's cost for wastewater treatment and disposal as fees paid to the City of San Diego for capacity and use of the San Diego Metropolitan Sewer System, and is allocated to users of the District's system based on the users generation of annual wastewater flow, biochemical oxygen demand, and suspended solids discharged into the District's system.

For the purpose of this ordinance, the discharge characteristics of an average single family user is one EDU and shall be composed of wastewater flow of 240 gallons per day for 365 days per year and constituent levels of sewage strength of 200 milligrams per liter (mg/l) biochemical oxygen demand (BOD) and 200 milligrams per liter (mg/l) suspended solids (SS).

For the purpose of this ordinance, the discharge characteristics of commercial/industrial users is a minimum sewer capacity of 1.2 EDU for each business unit with flow quantity and strength as measured by BOD and SS as set forth in the current edition of the California State Water Resources Control Board (State) publication "*Policy For Implementing The State Revolving Fund For Construction Of Wastewater Treatment Facilities*", or comparable industry standards acceptable to the State and approved by the District's Engineer. Minimum sewage strength capacity per commercial/industrial EDU is 200 mg/l BOD and mg/l SS.

The flow and strength rate EDUs are determined for individual business units as set forth herein in Section 30.3 and are applicable to each of the various District's users under the jurisdiction of this Ordinance. The District's Engineer shall assign flow rates, BOD, and SS based upon the estimated amount of and strength of wastewater that is typically generated for each business unit. The EDUs, flow rates, BOD, and SS so assigned shall be used in computing the sewer service charges.

If potable water delivered through the water meter is used by the District to estimate the volume of wastewater discharged over a period of time, then 90% of water meter flow is estimated to be discharged into the sewer unless the discharger or legal owner presents evidence to the contrary and this evidence is satisfactory to the District's Engineer. The District's Engineer may adjust the charges for wastewater treatment and disposal in proportion to the estimated volume of wastewater discharged to the sewer.

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SECTION 30.1 Annual Sewer Service charges shall be determined by the following formula (rounded to the nearest dollar):

$$SSC = (n/N \times D) + (f/F \times M_F) + (s/S \times M_S) + (b/B \times M_b)$$

In the above formula, the following terms have the meanings and definitions as shown:

n = Number of EDUs assigned to a particular user. EDUs are assigned as follows: 1.0 EDU each for single family dwellings, condominiums, each living unit of a multi-family dwelling, and each space for a mobile home park. Commercial/Industrial users are assigned a minimum of 1.2 EDUs, and additional EDUs may be assigned based upon Section 30.3 of this ordinance.

f = Flow of a particular user in million gallons per year, based either upon assigned EDUs or water meter records.

s = Suspended Solids of a particular user in pounds per year, based either upon State standards or comparable industry standards approved by the State.

b = Biochemical Oxygen Demand of a particular user in pounds per year, based either upon State standards or comparable industry standards approved by the State.

N = Total number of EDUs in the District. This is a summation of the EDUs assigned to all users.

D = District budgeted costs for the fiscal year in dollars, to collect and transport wastewater. This is a net cost for District customers after non-operating revenues have been subtracted from the total District budget costs. Such budgeted costs shall include, but not be limited to operation and maintenance costs of pipelines, pump stations, and meter stations; design and construction cost of replacement facilities; and administration costs including fee collection, accounting, record maintenance, planning and code enforcement.

M = Total District budgeted cost for the fiscal year in dollars, for treatment and disposal of wastewater. Such cost shall include, but not necessarily be limited to, fees paid to the City of San Diego for capacity in and use of the Metro System. The Metro treatment and disposal costs are further divided into cost categories as determined by the City of San Diego and allocated as follows: Flow Cost = M_F (43.7% costs); BOD Cost = M_b (30.1% of costs) and SS Cost = M_S (26.2% of costs).

F = Total flow in the District in million gallons per year from a summation of users' flows, based either upon assigned EDUs or potable water meter records.

S = Total Suspended Solids in the District impounds per year, from a summation of users' SS loading, based either upon State standards, or comparable industry standards approved by the State.

B = Total Biochemical Oxygen Demand in the District impounds per year from a summation of users' BOD loading, based either upon State standards, or comparable industry standards approved by the State.

SECTION 30.2 The SSC for the Lemon Grove Sanitation District for residential units are as follows:

FISCAL YEAR 2018-2019:

<u>Type</u>	<u>EDU Capacity</u>	<u>Estimated Flow</u>	<u>Annual SSC</u>
Single Family	1	240 gpd	\$601.80
Condominium	1	240 gpd	\$601.80
Multi-Family	1	240 gpd*	\$601.80
Mobile Home	1	240 gpd*	\$601.80

*Note that rates may be adjusted to reflect flow based upon potable water records.

SECTION 30.3 Assignment of sewer capacity for Commercial/ Industrial business units shall be assigned in terms of EDUs. The minimum charge per commercial unit shall be 1.2 EDUs or \$722.16 per annum during FY 18/19. Higher charges will be assessed for commercial/industrial EDU's with sewage strength higher than combined 400 mg/l BOD and SS. Flow based sewer capacity to business units shall be assigned as described in Section 50.3.

SECTION 50.3 COMMERCIAL/INDUSTRIAL FACILITIES

Sewer capacity for Commercial/Industrial business units shall be assigned in terms of Equivalent Dwelling Units as follows:

a. Food Service Establishments		<u>EDUs</u>
1)	Take-out Restaurants with disposable Utensils, no dishwasher, and no public rest rooms.	3.0
2)	Miscellaneous food establishments- ice-cream/yogurt shops, bakeries (sales on premises only).	3.0
3) (I)	Take-out/eat in restaurants with disposable utensils, but with seating and public rest rooms.	3.0 minimum
(II)	Restaurants with re-usable utensils, seating and public rest rooms.	3.0 minimum
One EDU is assigned for each 6-seat unit as follows:		
	0 – 18 seats=	3.0 minimum
	Each additional 6-seat unit will be assigned	1.0
b. Hotels and Motels		
1)	Per living unit without kitchen	0.38
2)	Per living unit with kitchen	0.60
c. Commercial, Professional, Industrial Buildings,		

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Establishments not specifically listed herein.

1)	Any office, store, or industrial condominium or establishment. First 1,000 sq. ft.	1.20
	Each additional 1,000 sq. ft. or portion thereof	0.70
2)	Where occupancy type or usage is unknown at the time of application for service, the following EDUs shall apply. This shall include but not be limited to shopping centers, industrial parks, and professional office buildings.	
	First 1,000 square feet of gross building floor area.	1.20
	Each additional 1,000 square feet of gross Building floor area. Portions less than 1,000 square feet will be prorated.	0.70
d.	Self-service laundry per washer	1.00
e.	Churches, theaters and auditoriums per each 150 person seating capacity, or any fraction thereof. (Does not include office spaces school rooms, day care facilities, food preparation areas, etc. Additional EDUs will be assigned for these supplementary uses.)	1.50
f.	Schools	
	Elementary schools for 50 pupils or fewer	1.00
	Junior High Schools for 40 pupils or fewer values	1.00
	High School for 24 pupils or fewer	1.00

Additional EDUs will be prorated based upon the above values.

The number of pupils shall be based on the average daily attendance of pupils at the school during the preceding fiscal year, computed in accordance with the education code of the State of California. However, where the school has had no attendance during the preceding fiscal year, the Director shall estimate the average daily attendance for the fiscal year for which the fee is to be paid and compute the fee based on such estimate.

SECTION 2. DATE OF LEVY OF NEW CHARGES. The Charges referenced above shall take effect on July 1, 2018 in the manner allowed by law.